ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Fears of a possible recession were spurred in September by a two-point decline in the Federal Reserve index of industrial production and by reports of surpluses of various commodities. The more optimistically inclined took heart from the fact that the decline was almost wholly due to reduced production in two industries — steel and autos — and was not widespread. That selective adjustments were in process in September, however, was pointed up by the existence of surpluses of such commodities as autos, petroleum, farm machinery, and copper, which were accompanied by corresponding reductions in output or price.

More favorable aspects of the business scene were the maintenance of peak levels of construction and of other investment outlays, continued high consumer expenditures as evidenced by retail and department store sales reports, and the easing of interest rates.

Unemployment Low

Further evidence that industrial activity was maintained near peak levels is supplied by the fact that unemployment in September remained at the postwar low of 1.2 million.

Nonfarm employment declined by 1 million largely because of the annual return of students to school from summer jobs. Nevertheless, at 55.0 million, the number of people employed in the nation's businesses, mines, and factories still exceeded the number so employed last year. At the same time, the proportion of wage earners in factory jobs who averaged 40 hours per week in the September survey week equaled or exceeded the corresponding figures for the September 1950 and 1951 survey weeks, which also contained Labor Day.

Farm employment remained at the August level of 7.3 million as students leaving farm jobs were replaced by women taking up farm work temporarily to assist with the harvesting.

Farm Prices Decline Further

Farm prices continued to weaken in September, with the index of prices received by farmers declining slightly less than 1 percent in the month ended September 15. Price rises in wheat, citrus fruits, tobacco, hogs, and dairy products were not sufficient to offset lower prices for commercial truck crops, beef cattle, and lambs. However, the parity ratio remained unchanged at the August figure of 92, as prices paid by farmers also declined. This figure was 9 percent below the parity ratio of last September.

Wholesale prices generally registered little change during September, but the Bureau of Labor Statistics sensitive daily index of spot commodity prices dropped nearly 3 percent in the last half of the month. Prices of fats, oils, livestock products, and metals declined the most. Steel scrap prices fell more than 15 percent at the end of the month, as steel mills preferred to work off inventories before making further purchases.

Construction Activity at Record Levels

Despite fears of a slump in building activity, the construction boom rolled along at record levels. Outlays for new construction in September remained at the August peak rate of $3.3 billion, as a seasonal decline in homebuilding was offset by a contra-seasonal rise in commercial building and by continued record levels of public utility construction. As a result, new construction activity in September reached a new peak for the year, 5 percent above last September.

Construction outlays in the first nine months of this year, at nearly $26 billion, also set a new record, 7 percent higher than a year earlier. The gain was largely accounted for by a 9 percent rise in private spending, chiefly because of sharp increases in commercial and public utility building. Public construction was up 5 percent, largely because of higher expenditures on highways, schools, and construction of other public facilities.

Inventory Accumulation Slower

The rate of accumulation of business inventories slackened considerably in August. Business inventories at the end of the month were valued at $77.8 billion, up $450 million from the end of July after seasonal adjustment. This was a much smaller increase than had taken place in recent months, especially since higher prices accounted for one-third of the rise.

Most of the inventory accumulation in August occurred at the manufacturers' level, with increased holdings reported by nearly all industries. Retailers' stocks, which have risen most during the past year (about 15 percent), rose only slightly and wholesalers' not at all. The total value of business inventories in August was 9.8 percent above the level of August of last year, part of this gain representing recovery from effects of the 1952 steel strike.

WESTERN EUROPE'S DOLLAR PROBLEM · · · By George Kleiner · · · Page 8

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V LEWIS BASSIE, *Director* — RUTH A. BIRDZELL, *Editor of Publications*

ROBERT FERBER, *Research Associate Professor*

Research Assistants

JAMES A. GHERITY — SHIRLEY G. RADANT

DONALD C. STREEVER, JR.

Our Farm Price Supports

News items originating in rural areas convey the impression that extreme depression prevails. Although some of the scare stories may greatly exaggerate, it seems clear that the fear of recession has affected the farmer's action. For example, hog production dropped another 10 percent this spring; and this reduction in the face of a high hog-corn ratio seems to contain an element of planning for depression. Fear of another setback in hog prices, stimulated in part by the decline in cattle prices, retarded production because corn that would be risked in feeding can be turned over to the government at 90 percent of parity.

The Accumulation of Surpluses

The depression phobia seems to rule national farm policy also. The accepted view seems to be that farmers can be saved from depression only by all-out government payments. Secretary of Agriculture Benson came into office opposing regimentation and calling for the rule of free market forces, but he soon did an about-face on policy. Surpluses have forced him to institute acreage controls on wheat and may require controls on cotton also. Price supports on these and four other basic crops are mandatory at 90 percent of parity; but where he had authority to lower dairy products to 75 percent of parity, he kept them at the 90 percent figure for the rest of the year. This bowing to political pressures illustrates again the difficulty of abandoning programs set up at the insistence of important producer groups.

Under the wheat agreement, policy has swung from one extreme to the other. Hardly more than a year ago, Secretary Brannan was calling for all-out production in 1953. In August, Secretary Benson set quotas totaling 62 million acres, the minimum permitted by law. The wheat growers voted six to one for the reduction of over 20 percent from last year's 78.6 million acres.

How successful this move will be is hard to foretell. The wheat growers will get around the restriction to the extent that higher yields can be obtained from the allotted acres. Other farmers may grow up to 15 acres of wheat without penalty. In addition, other crops can be planted on the restricted acres, possibly spreading the surplus to other commodities.

At the same time, demand is kept to a minimum by the high prices. This is true not only of domestic markets but of foreign markets. Exports of wheat were off sharply in fiscal 1953 and again this year, making a total decline of about one-half from fiscal 1952.

Other commodities are similarly affected, and the accumulation of surpluses continues apace. Government holdings of butter, cheese, and dried milk amount to almost a billion pounds. Some 400,000 bales of cotton were placed under loan in September, and it is estimated that the total may reach 5 million bales by next April. Wheat holdings are approaching half a billion bushels. The government investment in price supports amounted to $3¼ billion at the end of fiscal 1953, more than double the year before. By the end of fiscal 1954 it is expected to approach the $6 billion statutory limit.

No Solution in Sight

It is true that in the past we had considerable success in disposing of our surpluses. World War II used up those carried over from the thirties. Drought and disrupted production in the postwar period created a famine emergency, and the foreign aid program again took care of potential surpluses. This history was to some extent repeated after the outbreak in Korea. Today, with production increasing in other parts of the world, there is no such favorable prospect in sight.

Serious food shortages still prevail in various parts of the world, of course, and it might seem sensible to give away our surpluses to the countries that need them. But we are not in the mood for such a program, nor is the rest of the world prepared to accept it. Even some of our recent relief shipments are regarded as dumping, which other producing countries condemn as a form of unfair competition.

Also helping to undermine foreign relations are our attempts, such as import quotas, to protect domestic producers against foreign competition. There is growing support in Western Europe for reopening trade to the East, a traditional source of foodstuffs, and as this move progresses, we shall face a further loss of markets.

Such are the consequences of policy that sets aside the laws of supply and demand. By providing an incentive for peak production and at the same time restricting consumption, it aggravates the surpluses.

Delusion of the Farm Lobbyists

But pointing out that present policy renders the surplus problem well-nigh insoluble by no means states the whole objection to it. Another undesirable feature of the fixed price supports is that they not only maintain, but increase farm incomes. It does not take much arithmetic to see that if farmers produce 50 percent more than normal and sell at 90 percent of parity, their receipts would not be parity but 135 percent of parity. Thus, whenever a large crop results from particularly favorable weather, or from overplanting of a particular commodity, the farmers producing it gain a substantial advantage. We have heard no one claim that they should be rewarded for either accidents of weather or mistakes of management, but that is the implication of the present system.

Not only does the program confer special benefits on a particular group, but it does so at the expense of others. It in effect imposes a double tax on the consuming public — once in higher food prices and again in the taxes collected to purchase the surplus. In this way we become a house divided — which, as the Bible tells, cannot stand.

In these circumstances, there is no alternative to revising the program. Many forward-thinking farm leaders

(Continued on page 6)

WARMING THE NATION'S HOMES

Although crude forms of heating were used before the dawn of written history, improvement in methods and equipment has been made at an amazingly slow rate.

The first furnace was not produced until 1715 and even then it was too expensive and impractical for general use. By 1742 steam had been used for domestic heating, but the real usefulness of steam could not be exploited until the development of the cast-iron radiator almost 120 years later. In the meantime, relatively inefficient oil or coal stoves and fireplaces provided whatever heat was to be had.

Following the development of the cast-iron radiator, little progress was made in heating systems for another half century. Then, the last generation became a period of great gains.

Postwar Advances in Heating

Changes took place with exceptional speed after World War II. The adoption of many of the advances made in the years just prior to or during the war were delayed by fuel and material shortages. The postwar years have seen increased use of these innovations and the development of others.

Among the most interesting features of modern heating equipment are the new developments in controls, which affect both the comfort and the safety of the home. Modern controls range from the simple room thermostat of prewar days to the complex indoor-outdoor thermostat, designed to "keep up with the weather." This device automatically changes indoor temperature as outdoor temperatures vary, eliminating discomforting and unhealthful changes of temperature. Advances have also been made in controls for protecting the boiler itself against overheating, or heating when the water level is too low. Inexpensive controls have been designed for use with oil-, gas-, and coal-burning units.

Much of the effortless comfort of modern heating comes as a result of better fuels and increased firing efficiency. Scarcities of oil during World War II and the lack of natural gas pipelines delayed widespread use of these fuels until the postwar years. Today, their adaptability to control and the absence of ash removal problems have won them large numbers of users.

Consumer interest in the postwar period has also been heavily concentrated on radiant heating and baseboard heating. Radiant heating systems, in which hot water or steam pipes are run through walls, floors, or ceilings, can use any fuel and offer a saving in floor space as well as clean, draft-free heating.

Baseboard heating was developed as a result of studies which indicated that the warmth of air near the floor was an important factor in heating comfort. Since conventional heating systems often do not warm this area sufficiently, metal baseboards, through which hot water or steam are pumped, have been developed. These have proven highly satisfactory and when painted are not easily distinguished from conventional baseboards.

Year-Round Control of Temperature

Another method of heating developed in recent years — the heat pump — may eventually solve both heating and cooling problems of the homemaker at very low cost. This system uses no fuel, but relies on water pumped from underground formations as its source of heat. In winter, the system operates on a principle similar to the ordinary household refrigerator and extracts heat from the water, then pumps the refrigerated water back into the ground. In summer, the process is reversed and the groundwater is used to absorb the warmth of the air, thus cooling the house. This method is, at present, far too expensive for the average consumer, but it is thought that further development will bring prices down to levels within reach of the mass market.

Forced hot-air systems have been greatly improved as to quiet operation and efficiency and are now being designed in combination with refrigeration units to provide not only hot air in the winter but also cool air in the summer. Up to this time, these seem to provide the most economical cooling system available to the average homeowner.

Heating Equipment Manufacturers

Illinois, one of the leading states in the production of heating equipment, has 23 firms employing almost 20,000 workers. Although one of these firms, Crane Company of Chicago, employs almost half of these workers and manufactures a large number of items having to do with heating equipment, the majority of the State's firms employ less than a thousand workers each and specialize in the production of one or two specific items, such as radiant baseboards, steel boilers, humidifiers, or controls. Chicago has the heaviest concentration of heating equipment manufacturers with 11 of the State's 23 firms; Skokie and Rockford each have two. Firms manufacturing heating equipment are also located in Waukegan, Morton Grove, Kewanee, Wyoming, Mendota, Western Springs, Edwardsville, and Litchfield.

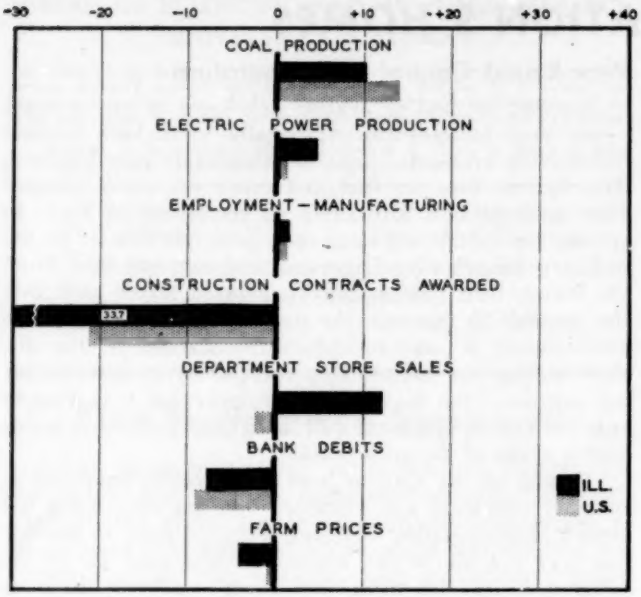
In addition to these are large numbers of firms located all over the State which manufacture products such as piping and joints. These are not, strictly speaking, heating equipment but are essential to the installation and use of such equipment.

Illinois ranks high not only in the production of heating equipment, but also in the research which has led to many of the improvements in heating methods and equipment in recent years. The focal point for much of this research has been the Research House maintained by the Institute of Boiler and Radiator Manufacturers on the campus of the University of Illinois. In this house, a great deal of the basic research that has resulted in improved heating systems has been done. In a highly competitive industry, the benefits of such research soon reach the public through the struggle to produce the best system at reasonable cost.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes July, 1953, to August, 1953



ILLINOIS BUSINESS INDEXES

Item	August 1953 (1947-49 =100)	Percentage Change from July 1953	Percentage Change from August 1952
Electric power[1]	168.1	+ 4.6	+25.4
Coal production[2]	70.2	+10.3	+29.8
Employment—manufacturing[3]	112.0	+ 1.5	+ 7.1
Payrolls—manufacturing	n.a.	....	....
Dept. store sales in Chicago[4]	104.0[a]	- 1.0	- 3.7
Consumer prices in Chicago[5]	116.3	+ 0.5	+ 0.7
Construction contracts awarded[6]	193.0	-33.7	+ 1.9
Bank debits[7]	135.3	- 7.3	+21.5
Farm prices[8]	104.4	- 3.6	-10.7
Life insurance sales (ordinary)[9]	138.6	-10.5	+15.9
Petroleum production[10]	92.5	+ 2.5	- 0.3

[1] Federal Power Commission; [2] Illinois Department of Mines; [3] Illinois Department of Labor; [4] Federal Reserve Bank, 7th District; [5] U. S. Bureau of Labor Statistics; [6] F. W. Dodge Corporation; [7] Federal Reserve Board; [8] Illinois Crop Reports; [9] Life Insurance Agency Management Association; [10] Illinois Geological Survey.
[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	August 1953	Percentage Change from July 1953	Percentage Change from August 1952
	Annual rate in billion $		
Personal income[1]	287.0[a]	- 0.2	+ 5.8
Manufacturing[1]			
Sales	306.0[a]	- 3.8	+16.4
Inventories	46.2[a, b]	+ 0.9	+ 7.2
New construction activity[1]			
Private residential	13.0	- 1.8	+ 3.7
Private nonresidential	13.2	+ 2.6	+10.9
Total public	13.6	+ 2.4	+ 7.5
Foreign trade[1]			
Merchandise exports	16.2[c]	- 2.2	+31.0
Merchandise imports	10.9[c]	- 2.8	+ 8.2
Excess of exports	5.3[c]	- 1.0	+132.9
Consumer credit outstanding[2]			
Total credit	27.4[b]	+ 0.8	+19.1
Installment credit	21.1[b]	+ 1.0	+25.9
Business loans[3]	22.9[b]	+ 1.1	+ 8.4
Cash farm income[3]	n.a.	....	....
	Indexes (1947-49 =100)		
Industrial production[3]			
Combined index	128[a]	+ 1.7	+ 9.8
Durable manufactures	144[a]	0.0	+16.5
Nondurable manufactures	115[a]	+ 3.1	+ 3.1
Minerals	116[a]	+ 3.0	+ 9.0
Manufacturing employment[4]			
Production workers	111[a]	- 1.2	+ 5.9
Factory worker earnings[4]			
Average hours worked	102	+ 0.2	0.0
Average hourly earnings	133	0.0	+ 6.6
Average weekly earnings	135	+ 0.3	+ 6.6
Construction contracts awarded[5]	185	-21.1	- 1.7
Department store sales[2]	112[a]	0.0	0.0
Consumers' price index[4]	115	+ 0.3	+ 0.6
Wholesale prices[4]			
All commodities	111	- 0.3	- 1.4
Farm products	96	- 1.6	-12.4
Foods	105	- 0.7	- 5.2
Other	115	0.0	+ 1.6
Farm prices[3]			
Received by farmers	96	- 0.4	-12.5
Paid by farmers	112	0.0	- 3.1
Parity ratio	93[d]	0.0	- 9.7

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for July, 1953; comparisons relate to June, 1953, and July, 1952. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Sept. 19	Sept. 12	Sept. 5	Aug. 29	Aug. 22	Sept. 20
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,611	1,623	1,604	1,624	1,595	1,975
Electric power by utilities mil. of kw-hr.	8,395	7,963	8,694	8,540	8,432	7,654
Motor vehicles (Wards) number in thous.	138.6	116.8	125.9	144.9	155.7	138.4
Petroleum (daily avg.) thous. bbl.	6,405	6,417	6,445	6,532	6,529	6,386
Steel 1947-49=100	128.3	125.2	127.0	131.1	134.6	132.0
Freight carloadings thous. of cars	824	711	799	818	817	881
Department store sales 1947-49=100	120	102	101	100	100	114
Commodity prices, wholesale:						
All commodities 1947-49=100	110.8	110.4	110.3	110.7	110.8	111.8
Other than farm products and foods 1947-49=100	114.6	114.7	114.7	114.7	114.8	113.2
22 commodities 1947-49=100	89.7	90.3	89.7	89.9	89.0	95.1
Finance:						
Business loans mil. of dol.	23,295	22,957	22,965	22,891	22,940	21,692
Failures, industrial and commercial number	182	131	178	182	122	145

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

Sharp Advance in Foreign Investment

Reflecting in large part the desire by United States business to develop foreign sources of raw materials is the sharp increase in American investment in foreign countries that has occurred in the past few years. Direct investment abroad (mainly business investment in foreign subsidiaries and branches) advanced by more than $3 billion between 1950 and the middle of 1953 to $15 billion, according to data recently released by the Department of Commerce. Most of the increase went to countries in the Western Hemisphere, with about half of it concentrated in Canadian enterprises and another $1 billion invested in Latin America. Direct investment in Canada at the end of 1952 totaled about $5 billion, a third of all our foreign investment.

No current data are available to indicate the portion of United States investment flowing into different foreign industries. However, in 1950, the most recent previous year studied, manufacturing accounted for 32 percent of this country's total foreign investment, followed in importance by the petroleum industry, which accounted for 29 percent of the total.

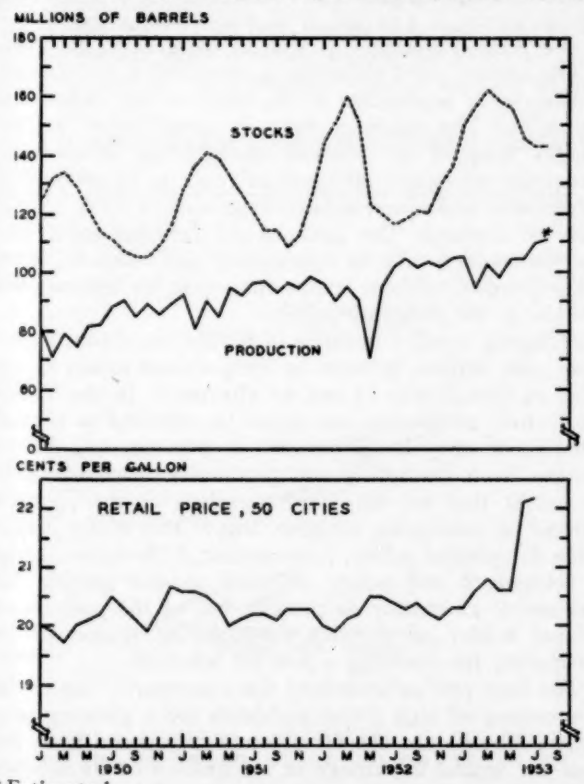
The importance of direct investment is apparent from the fact that in 1950 approximately 20 percent of United States purchases abroad were from foreign branches and subsidiaries of American companies.

Gasoline Stocks Off Less Than Usual

This year, since June boosts in gasoline prices, motorists have been paying higher prices per gallon than they had in over three decades. Although the increase amounted to less than 2 cents a gallon, it represented the sharpest advance in gasoline prices that has occurred in more than three years. (See chart.)

Also brought out by the chart is the fact that stocks of gasoline dropped much less than usual during the summer months. In previous years, stocks declined by 20 percent or more between the seasonal peak reached in the spring and the end of August. This year the decline amounted to only 12 percent. The less-than-seasonal drop in stocks is largely attributable to record production of gasoline which was not accompanied by correspondingly higher consumption.

GASOLINE PRODUCTION, STOCKS, AND PRICES



* Estimated.

Sources: American Petroleum Institute and Bureau of Mines.

Students Leave Labor Force

Students left summer jobs and returned to classrooms en masse early in September, and as a result employment declined by about 1 million persons during the month to 62.3 million. Despite the drop, employment was at a record for the month, slightly above the September, 1952, level. There was almost no change in unemployment from August to September since the decline in the number of employed students produced a corresponding decline in the size of the labor force rather than a rise in unemployment. Census data, in thousands of workers, are as follows:

	September 1953	*August 1953*	*September 1952*
Civilian labor force	63,552	64,648	63,698
Employment	62,306	63,408	62,260
Agricultural	7,262	7,274	7,548
Nonagricultural	55,044	56,134	54,712
Unemployment	1,246	1,240	1,438

Public and Private Debt Up in 1952

Outstanding debt of the American people rose $31.5 billion during 1952, about the same increase as occurred in 1951. This lifted total public and private debt to $533 billion, an amount equal to $3,450 per person. As in other postwar years, the bulk of the increase centered in private indebtedness. However, in 1952 Federal, state, and local borrowing accounted for a quarter of the overall debt increase, as opposed to less than 8 percent in 1951. A $5.5 billion increase in Federal government obligations accounted for this advance, since there was no change in the rate of state and local borrowing in 1952.

Private borrowing rose 8 percent in 1952 to account for 55 percent of the total debt. In 1951 it represented 53 percent, and in 1945, the wartime low, it amounted to only 35 percent of the total. About half the private debt expansion in 1952 consisted of a $7.5 billion increase in consumer credit. Increased corporate debt accounted for most of the remaining advance in private obligations, though advancing less than in either 1950 or 1951.

Factory Workweek Unchanged

Factory workers averaged 40.5 hours of work a week in August, fractionally above the July workweek. The increase was less than expected for this time of year, as the average workweek usually advances more sharply between July and August when workers return from vacations and factories expand output in preparation for the fall buying season. Nevertheless, average weekly hours in manufacturing plants in August equaled their level of a year ago, and were only about a half hour below the postwar high for the month reached in 1950.

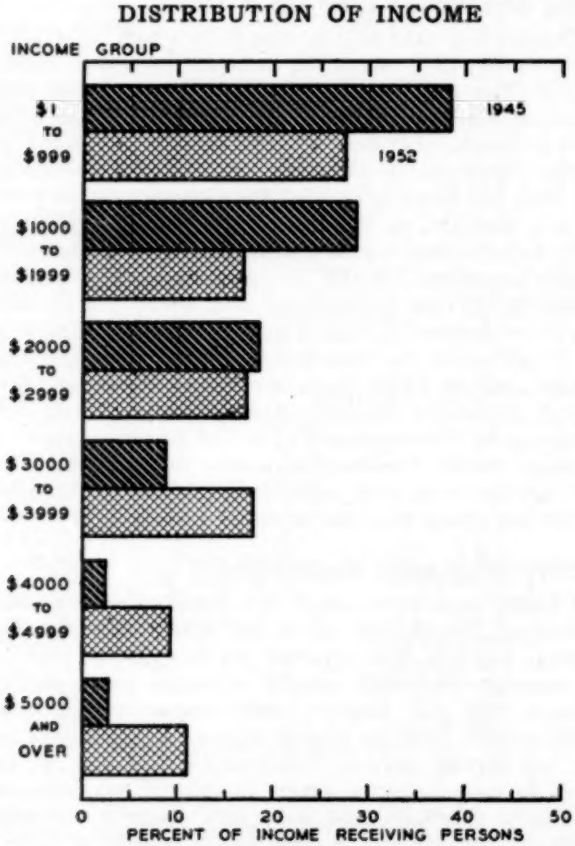
Average hourly earnings in manufacturing, including

overtime and other premium pay, were unchanged from July at a postwar high of $1.77. This was 11 cents an hour higher than in August, 1952. Most of the increase over 1952 occurred in the latter part of last year and the opening months of 1953. Hourly earnings have changed only slightly since April. Largely because of the increase in wage rates, average weekly earnings in August reached $71.69, up $4.50 from a year ago.

Postwar Shift in Distribution of Income

Consumers' incomes have kept pace with the sharp postwar increase in production and employment. In 1945 the median income of American earners was $1,360. Last year it amounted to $2,315, an increase of 70 percent over the seven-year period, according to Bureau of the Census estimates.

Accompanying the postwar rise in median income has been a marked shift in the percentage distribution of persons among income classes. In 1945, nearly 40 percent of all Americans who had any income at all received less than $1,000 and only 3 percent earned $5,000 or more. Since 1945 an increasing proportion of income receivers has advanced into higher income groups. This was due partly to higher price levels and partly to the expansion of employment opportunities. As a result, the percentage of persons earning less than $1,000 had shrunk to less than 30 by 1952, whereas the percentage in the highest income group had nearly quadrupled. As shown by the accompanying chart, this movement toward higher income levels occurred all along the income scale, with a substantially smaller percentage of persons in the income groups below $3,000 in 1952 than in 1945, and a much higher proportion in the groups above $3,000.



Source: Bureau of the Census.

Our Farm Price Supports

(Continued from page 2)

recognized this and supported the flexible price provisions of the Agricultural Act of 1949, which provide for progressive lowering of support prices when crops exceed recent norms. This attempt to call the price mechanism into action was essentially a step in the right direction. But this provision of the law has consistently been prevented from coming into operation. Last year Congress continued the 90 percent support through 1954. Recently, Senator Young (R., N.D.) has announced that he will push for another 3-year extension at the same rate early in the next session of Congress.

Perhaps Secretary Benson has merely postponed meeting the issue until a mounting scandal changes the balance of pressure. Otherwise, his action would imply acceptance of a false political thesis; for it is no more than a delusion of the professional lobbyists that so ill-conceived a program can endure. What happened to potatoes will happen to the rest of the program if adjustments are not made. The question now is merely whether it will be preserved unchanged until public indignation sweeps it away in its entirety.

The Objectives of Farm Policy

All this is not to say that any kind of farm program must be ruled out. In this rapidly changing economic world, some intervention to prevent the worst contingencies may well be justified. It may be worth a look, therefore, at the valid objectives of such intervention.

The first — which is the original purpose for which the support program was devised — is to provide relief from distress under conditions of extreme depression. Providing relief does not mean keeping incomes at a peak. But the whole point is rather irrelevant at present, because we are in a period of unprecedented prosperity — for the farm community as well as the general economy.

The second valid objective is to secure a satisfactory adjustment of production to the needs of the consuming population. The problem here is complicated by the changes imposed by national emergencies. In such an emergency we expect all kinds of business to produce to their utmost and afterwards to drop back to more normal levels of demand. The business of farming must, like other businesses, take its opportunity and carry its share of the burden, without expectation that its income will continue at the peak indefinitely.

Although today's position is hardly an all-out emergency, our surplus problem to some extent arises as the result of World War II and its aftermath. In the transition, before production can again be adjusted to normal demands, it may be important to prevent too drastic changes from disrupting our productive mechanisms to the extent that we may find ourselves at the opposite extreme of inadequate supplies. But if this is the justification for present policy, its transitional character should be recognized and policy adjusted toward getting the government as quickly as possible out of the position of residual holder of supplies produced by reason of an opportunity for realizing a political windfall.

The only real assurance of farm prosperity lies in the maintenance of high living standards for a growing population. The sooner the farm community turns from the quest for special advantage in recognition of its dependence on general prosperity, the better will be its chances for a secure future. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Metal Insulation Spray

A spray that will insulate metals to temperatures up to 5,000 degrees Fahrenheit has been developed by the B. F. Goodrich Company, Akron, Ohio. A 1/16-inch coating of the new insulation protects metal up to 10 seconds against flame temperatures hotter than the melting point of metals, according to the company. The product, which was developed at the request of the Defense Department for use in the rocket and guided missile field, is described as a "water base inorganic material unique in the field of thermal insulation."

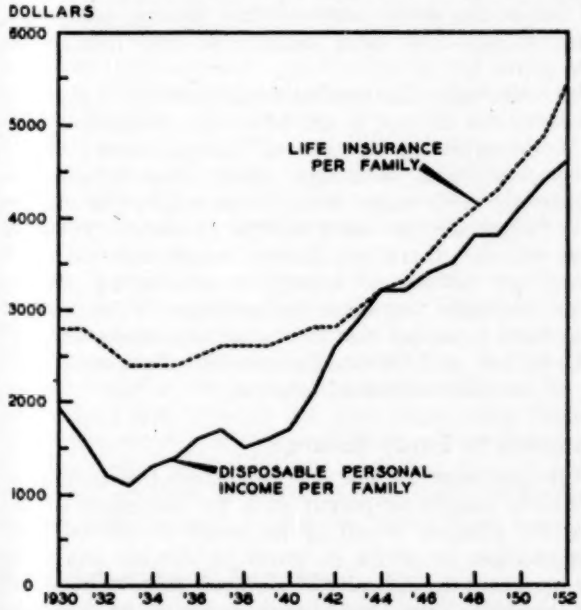
Called Pyrolock, the new material is nontoxic, nonflammable, and nonexplosive, and will adhere directly to clean metal surfaces without sandblasting or use of priming surface preparations. It is sprayed on like paint, and the dried layer of Pyrolock bonds itself to metal with a strength that withstands sharp impact short of actual deformation of the base metal. Resistant to most solvents and chemicals, the product also withstands indefinitely temperature cycles from 60 degrees below to 165 degrees above Fahrenheit.

Life Insurance Related to Personal Income

The amount of life insurance in force per family has risen steadily during the past decade, but not as much as disposable personal income per family. According to the chart below, the value of life insurance in force per family in 1930 was almost 50 percent greater than disposable personal income per family, and in 1933 at the depth of the depression, it was 118 percent greater. But in 1952, when average family earnings were up to $4,600 after taxes, the value of life insurance in force per family was $5,400, only 17 percent higher than the family's disposable income. Only three out of ten families who owned life insurance in 1952 invested 5 percent or more of their disposable income in premiums, according to the annual Survey of Consumer Finances conducted by the University of Michigan for the Federal Reserve Board.

About 77 percent of all families owned some type of life insurance in 1952. Although ownership differed primarily with income status, the number of children in the home was also a determining factor. Families with no children reported 73 percent owning life insurance; those with one child, 84 percent; and those with two children, 86 percent. However, only 83 percent of families with three children were owners of life insurance and 70 percent of those with four or more children.

LIFE INSURANCE AND DISPOSABLE INCOME



Sources: Institute of Life Insurance, Spectator Year Book, and U. S. Department of Commerce.

Around-the-Clock Recorder

A recording machine that absorbs information continuously for 48 hours unattended is being offered to the commercial market by SoundScriber Corporation, New Haven, Connecticut. This is made possible by use of a wider tape. Whereas conventional one-hour recorders employ magnetic tape about a quarter of an inch wide, the new unit has one with a width of three inches. The tape moves at a rate of a little over 4½ inches a minute whereas the tape in one-hour machines moves almost that far in a second. A buzzer sounds if a power failure occurs, when the machine nears the end of the tape, or when the tape breaks. Also, by means of a printed time scale on the tape, it is possible to know the exact time messages are received.

The machine can also be equipped to record simultaneously two channels of communication having different frequencies. However, the unit works for only 24 continuous hours when used that way. The recorder, which is about the size of a large table-top radio, will cost $1,250 for one-channel use and $1,395 for the two-channel type. The company believes operating costs will be low.

The armed services have been using the machine for the past year for recording communications between plane pilots and operators of airfield towers. Commercial applications for the equipment include radio program monitoring, recording commercial airline and railway communications, copying police and fire department broadcasts, and press and business recording where exact reproduction is important.

Rust Remover

A new type rust- and tarnish-removing compound provides a combination treatment which will remove rust and tarnish and retard future corrosion at the same time. The makers, Octagon Process, Incorporated, assert that the compound, called Rustclean, will not only clean metal surfaces of rust, scale, and oil and grease film, but will also prevent the re-formation of corrosive elements. In addition, it will prepare metal surfaces for painting and promote adhesion of paints and lacquers. According to the manufacturer, the new product is nonflammable, nontoxic, and safe to handle. It can be used on vertical and horizontal surfaces as well as on tools, automobiles, and other metal products.

Octagon Process, Incorporated, (15 Bank Street, Staten Island 1, New York) has published a booklet on rust and tarnish removal in which six different types of

(Continued on page 9)

WESTERN EUROPE'S DOLLAR PROBLEM

GEORGE KLEINER, Associate Professor of Economics

The increase in foreign gold and dollar holdings in the past year and a half has focused attention once more upon the possibility of freeing international trade and payments of the restrictions that have been used so widely since the beginning of the war.

The importance of adequate reserves of gold and dollars has been stressed for some time both here and abroad. Most countries that have maintained exchange controls and other trade restrictions have been reluctant to do away with these controls and free their international transactions, for fear that their reserves would prove to be inadequate to tide them over the fluctuations so frequently encountered in international payments.

By the end of 1952, aggregate gold and dollar holdings of foreign countries had reached $20.4 billion, which was about $6 billion higher than the postwar low in September, 1948, and close to the postwar high at the end of 1945. Considering that in the principal countries the level of industrial production is well above prewar, that the job of reconstruction has been accomplished, and that in most countries what lies ahead is the long, relatively slow pull of increasing productivity rather than the sharp drain on resources of making good the losses due to war, it seems at first glance that such a level of reserves should be adequate. Closer analysis, however, will show that this view rather oversimplifies the problem.

The "Dollar Gap" Persists

It will be evident from the accompanying table that in spite of the high level of United States imports of goods and services in the past few years, the rest of the world was still unable to balance its accounts with us. True, foreign countries were able to add to their gold and dollar holdings. But even if we exclude these increases from their deficit on current account, there is a "dollar gap" of some $4 billion a year.

Relative to the increase in the value of world trade, moreover, foreign reserves are still low — well below prewar levels. They afford considerably less protection against our economic fluctuations than before, and these fluctuations seemingly threaten to be more violent than ever.

A further point of importance with regard to these recent results is that many countries still maintain tight restrictions on imports from the dollar area. Were it not for such controls, the purchase of goods and services from the United States would most certainly have been higher and would therefore have cut into reserves, instead of permitting them to be increased. Until the principal foreign countries see themselves clearly achieving balance in their international transactions with us, it is doubtful that we can prevail upon them to dismantle their controls on such transactions.

UNITED STATES BALANCE OF PAYMENTS

	1951	*1952*
	Billions of dollars	
Supply of dollars through:		
Merchandise imports into U. S.	11.7	11.5
Payments for services to foreigners	3.4	4.2
Private capital outflow from U. S.	1.0	0.9
Private remittances	0.4	0.4
	16.5	17.0
Foreigners used dollars to secure:		
Merchandise exports from U. S.	15.5	15.9
Services from U. S.	4.7	4.8
Increase in foreign-owned dollar balances and other assets, including gold, net	0.4	1.2
Unaccounted for	0.5	0.2
	21.1	22.1
Foreign deficit	4.6	5.1
Deficit was met almost entirely through U. S. government aid, military and economic	4.6	5.1

Source: U. S. Department of Commerce.

Western Europe's Need to Export

What, then, are the chief hindrances to achieving such a balance? The problems faced differ with different countries or areas. For the countries of Western Europe, the problem is essentially one of redistributing their resources, of shifting them from the production of the kinds of exports they have specialized in in the past, largely manufactured consumer goods, to the production of the capital goods and other durables now so much in demand in the developing countries of Latin America and Asia.

Western Europe has actually achieved a remarkable increase in exports. To balance its accounts, however, the increase must be even greater than it has been thus far. The reasons for this are mainly two. The principal Western European countries lost a good deal of investment and service income during the war, when they were forced to liquidate foreign assets in order to pay for current imports. Great Britain even became a substantial debtor, and though the servicing of this debt does not involve a particularly large outlay annually, the very existence of the debt has had an unsettling effect on her international position. This loss of investment income (as well as repayments on outstanding debts) means that exports must be increased if the level of imports is to be maintained. The income of 1950-51 from Europe's external assets was equivalent to only 9 percent of the 1938 volume of exports valued at present prices, compared with 32 percent before the war; this was due partly to a fall in the money level of that income, partly to a decline in its real value because of the increase in world prices.

An even bigger burden has been imposed on Western Europe by the change in the prices of its imports relative to the prices of its exports. Europe imports chiefly raw materials and foodstuffs, which have increased in price considerably more than the manufactures she exports. To pay for the same volume of imports today as before the war, therefore, Europe would have to ship a much larger volume of exports, thus reducing the resources available for home consumption or investment. It has been estimated that this alone represents an additional burden on Western Europe equivalent to 44 percent of its 1938 volume of exports.

Obstacles to Trade Balance

But even were Europe able to achieve the increase in production needed to permit such an expansion of exports, the problem would by no means be solved. Two other changes or shifts in world production and trade have increased the difficulty of Europe's achieving balance with the dollar area. One of these is the shifts that have taken place in the sources of supply of some of the principal raw materials and foodstuffs. Partly because of

the desire to industrialize, partly because of increased home consumption, export availabilities in many non-dollar countries have either declined or failed to increase, with the result that Europe has had to depend upon exports from the United States and Canada, thus increasing her dollar requirements.

The other change that has militated against Europe's achieving dollar balance is the changed distribution of world dollar receipts since the war. Much of the increase in United States payments for imports has gone to countries of the Western Hemisphere. Whereas the volume of United States imports from other Western Hemisphere countries increased more than 150 percent, the volume of our imports from the rest of the world, excluding Western Europe, increased less than 50 percent. If we add private capital outflow to this supply of dollars, moreover, the distribution becomes even more changed, since the bulk of our investments since the war have been in Canada and in Central and South America, with an important share going into oil development.

In the face of these changes in sources of supply and dollar distribution, Western Europe is faced with one of two alternatives. The first is to increase exports to the non-dollar world in competition with the United States. If Europe were able to displace American exports in third countries, and if United States imports from these third countries were to remain at present levels, Europe would be in a position to earn dollars indirectly, and this multilateral source of dollars could then be used to cover her direct deficit with the United States.

The devaluations of 1949 were designed largely to achieve this objective. Before their full effects could be felt, the outbreak of the Korean war and the stock-piling program of the United States sent prices up in a new spiral. It is significant, however, that when the dollar earnings of the "third" countries expanded so sharply in the year commencing June, 1950, these countries were not disposed to spend their dollar accruals on European exports. Rather, they held on to their dollars, using them later to purchase capital goods and other durables in the United States.

Though Europe has achieved a remarkable increase in exports to the non-dollar world, further increases will require a redirection of her resources away from the production of consumer goods exports and towards the production of capital goods exports. In a world bent on industrialization, it is the latter type of product that is in demand. For Europe, however, the achievement at the same time of a very large increase in the physical volume of exports and a change in the composition of those exports must inevitably be a painful, costly process and one that will take a long time.

The second alternative is for Europe to increase exports directly to the United States. This is the basis for the recent emphasis on "trade not aid." Aside from the reduction in United States tariffs that such a development would necessitate, this alternative would likewise take a long time to work out. To compete with the most productive country in the world in its own markets, with its own tastes and ways of producing and marketing goods and services, and to do this on the scale needed to achieve dollar balance for Europe, would be no mean feat.

Basic Adjustments Required

Either of these two alternatives, moreover, would require readjustments on the part of the United States. What it amounts to is that if Europe is to increase her exports sufficiently to make her dollar position viable, this increase must be in what is now an American market, whether within the United States itself or in the rest of the non-dollar world. For the United States, European balance must mean that we shall have to absorb the additional European exports or absorb the output of those resources, now producing exports, that would be displaced as a result of European competition in third countries.

There are, of course, other alternatives, but they have been discarded as politically not feasible or as undesirable from a longer-run point of view. One that seems to be gaining ground in certain Western European quarters is the opening up of trade between Western and Eastern Europe, and the attempt to develop sources of supply in Eastern Europe for the materials and foodstuffs Western Europe must have.

Another is an increase in private United States investments in foreign countries or, failing that, the continuance of United States aid. Given the desire to industrialize on the part of the underdeveloped countries, and given the substantial investments that would become profitable once some of the needed public overhead capital were acquired in these countries, it seems that private investment would appear attractive. Thus far, however, there have been many obstacles in the way: exchange controls, transfer difficulties, problems of taxation, political nationalism and the fear of colonial status, general world tension, and inflationary conditions in the underdeveloped countries, to name a few.

Whatever alternative Europe will attempt to use to bring her dollar position into balance, it should be clear that the achievement of balance will take a long time, and that Europe will hardly be in a position to drop her direct restrictions on international transactions until she has achieved a greater degree of dollar security.

Business Briefs

(Continued from page 7)

Rustclean are described. Each type does a special job. The booklet furnishes detailed instructions for the use of the compound by wipe-on, immersion, and spray methods.

Economical Factory Towel

A new disposable towel made of cotton and plastic is expected to cut factory towel costs, according to its developers, Toledo Industrial Wipers Company, Toledo, Ohio. Designed to clean, polish, and get rid of grease, oil, or water, the new towel will cost about 1¼ cents as compared with 8 cents for ordinary rag wipers. Called Wipex, the new cotton-plastic item is reported to absorb up to six times its own weight in liquids. The cloth is now being test sold by a subsidiary, Wipex Company.

Tougher Sealing Tape

A new paper-backed tape for sealing cartons and boxes has been placed on the market by the Minnesota Mining and Manufacturing Company, St. Paul, Minnesota. Tradenamed "Scotch" brand sealing tape No. 260, the tape is described by the company as the strongest and most waterproof yet developed. According to the producer's tests, the new product can take 50 percent more rough handling when dry and 400 percent more hard treatment when wet than any other paper carton sealing tape. The item is of the pressure-sensitive type which means that it does not need to be wet when stuck in place.

LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois in August was down slightly from July, but registered marked advances over August, 1952, levels. Up 10 percent or more from last August were electric power production, coal production, bank debits, life insurance sales, business loans, and steel production. Even construction contracts awarded in August, off 34 percent from July, gained 2 percent over the same month of 1952.

Consumer prices in Chicago, continuing upward for the fifth consecutive month, reached another new peak at 116.3 percent of the 1947-49 level.

Labor Legislation in 1953

Perhaps the most important labor legislation passed by the 68th Illinois General Assembly were bills amending the *Workmen's Compensation and Occupational Diseases Acts.* Maximum death payment was increased from $6,800 to $8,000 in cases of no children and from $9,600 to $10,750 where there are four or more children under 18. Maximum weekly benefits were raised from $25.50 to $29.00 where no children are involved, and from $34.00 to $38.00 in cases of four or more children. These and other substantial benefit increases, which amounted to approximately 16 percent, represent the largest gains ever made in Illinois at one time.

Other labor bills passed by the Legislature and summarized in the July-August, 1953, issue of the *Illinois Labor Bulletin* include the following: Industrial home work is prohibited on the processing of metal springs and of any other article determined to be harmful to the health or welfare of industrial home workers or to the public, or which makes the maintenance or enforcement of labor standards unduly difficult.

Laws governing the six-day week and eight-hour day for women were amended to authorize the Director of Labor to grant emergency permits for longer working hours under certain circumstances.

A provision was added to the Illinois *Child Labor Law* stating that no minor can be excused from attending school except under circumstances deemed necessary and lawful by the county superintendent of schools or the superintendent of the public school which the child should be attending.

The amount of weekly wages exempt from garnishment (wages taken in default of money owed) when the employee is the head of a family was raised from $25 to $30, and the fine for violation of the *Garnishment Act* was raised from $100 to $500.

Tax Revenues High

Tax collections in Illinois during the first eight months of 1953 ran 15 percent, or $36.8 million, ahead of 1952. Collections during the summer months have been unusually high because of record living costs and peak employment — factors promoting rapid circulation of cash. Nearly $38 million — an unprecedented midsummer rate — was collected by the State Treasury in July, and August receipts totaled almost $36 million.

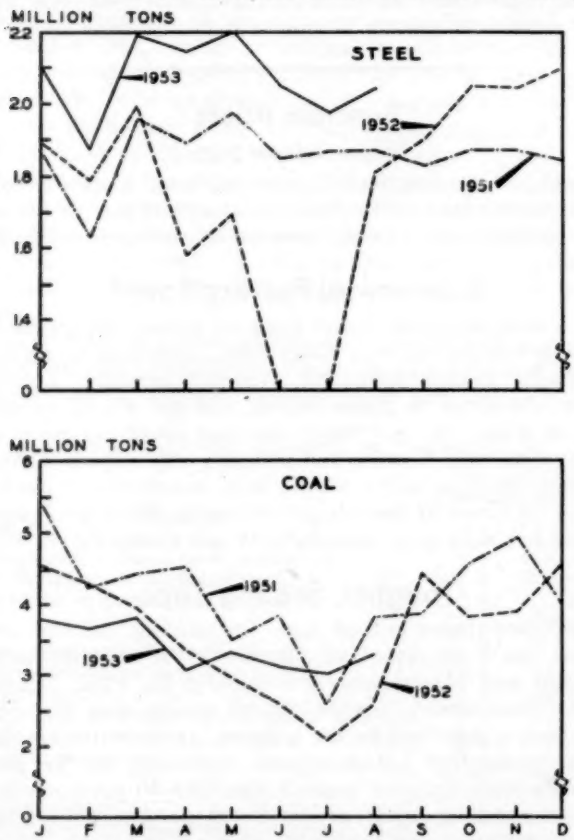
An increase of 17 percent between August of last year and August, 1953, resulted from gains in five major categories. The gasoline tax, which was boosted to a nickel a gallon this year as against four cents a gallon in 1952, was responsible for more than half of the overall gain, up $3.0 million to $11.9 million. Retailers' occupation taxes accounted for another 29 percent of the increase, up $1.5 million to $16.7 million. Other sources of general revenue that registered increases over August, 1952, were liquor tax collections, up $386,530 to $2.1 million; utility tax receipts, up $271,965 to $2.1 million; and cigarette tax revenue, up $195,420 to $2.7 million.

Differences in Coal and Steel Output

Coal production in Illinois and steel production in the Chicago District have exhibited diverse trends during recent years (see chart). In the first half of 1953, for example, steel production attained a record high, and subsequent output remained well above 1951 and 1952 levels. But coal production fell below both the 1951 and 1952 levels at the outset of the year and only since May has it surpassed last year's output. The improvement has been due to a greater-than-expected demand by the electric utilities and to a sustaining demand by steel mills. However, the 1953 level of production is still well below the average 1951 output of Illinois mines.

During the first eight months of 1953, Chicago District steel mills turned out 16.6 million tons as compared with 11.4 million tons for the same period in 1952. August production totaled 2.0 million tons, up 3 percent from July and 12 percent from August, 1952. August coal output, up 10 percent from July, reached 3.4 million tons. That was 30 percent more than August, 1952, production.

ILLINOIS COAL AND STEEL PRODUCTION



Sources: American Iron and Steel Institute and Illinois Department of Mines and Minerals.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1953

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$30,499[a]	926,872[a]	$518,326[a]		$11,823[a]	$10,801[a]
Percentage Change from... July, 1953	+8.5	−0.4	−9.1	+12	−7.3	−2.1
Aug., 1952	+67.9	+10.5	+10.9	−3	+17.7	−7.7
NORTHERN ILLINOIS						
Chicago	$24,182	711,709	$375,591		$10,791	$9,390
Percentage Change from... July, 1953	+17.8	−2.0	−10.3	+11	−7.3	−2.3
Aug., 1952	+85.2	+9.8	+10.7	−4	+18.3	−8.6
Aurora	n.a.	n.a.	$ 7,352		$ 46	$ 102
Percentage Change from... July, 1953			−8.8	+24	−1.3	+25.4
Aug., 1952			+6.9	−2	+15.1	+18.6
Elgin	$ 549	n.a.	$ 5,425		$ 28	$ 87
Percentage Change from... July, 1953	+68.4		−5.2	n.a.	+1.5	+26.9
Aug., 1952	+45.6		+12.5		+5.7	+0.7
Joliet	$ 416	n.a.	$12,421		$ 58	$ 75
Percentage Change from... July, 1953	−41.0		−2.7	+13	−7.4	+20.1
Aug., 1952	−21.7		+27.9	+2	+17.7	+17.7
Kankakee	$ 244	n.a.	$ 5,429		n.a.	$ 27
Percentage Change from... July, 1953	+27.1		+0.8	n.a.		−5.2
Aug., 1952	+51.6		+13.3			−1.7
Rock Island-Moline	$ 771	18,558	$ 9,699		$ 78[b]	$ 141
Percentage Change from... July, 1953	−36.6	−3.8	−8.0	n.a.	−6.5	+16.0
Aug., 1952	−14.0	+25.6	+7.8		+9.0	−6.7
Rockford	$ 900	31,720	$15,787		$ 127	$ 143
Percentage Change from... July, 1953	−42.3	+14.2	−8.4	+16	−4.5	−5.0
Aug., 1952	+39.8	+16.0	+13.1	−5	+4.1	+0.2
CENTRAL ILLINOIS						
Bloomington	$ 124	6,656	$ 6,447		$ 52	$ 78
Percentage Change from... July, 1953	−37.7	+6.5	−4.0	n.a.	−12.0	+15.7
Aug., 1952	−33.3	+12.2	+31.2		+3.8	−25.2
Champaign-Urbana	$ 219	7,796	$ 6,497		$ 48	$ 70
Percentage Change from... July, 1953	−78.5	+4.3	−11.9	n.a.	−10.7	−5.9
Aug., 1952	−40.0	+8.3	+0.5		+8.3	+11.1
Danville	n.a.	8,822	$ 5,849		$ 41	$ 48
Percentage Change from... July, 1953		+8.4	−6.0	+30	−6.7	−11.1
Aug., 1952		+11.5	+9.2	+4	+2.7	+8.1
Decatur	$1,413	21,972	$ 9,811		$ 77	$ 89
Percentage Change from... July, 1953	+35.6	−1.2	−6.0	+17[c]	−16.4	−8.7
Aug., 1952	+295.8	+16.8	+12.7	+2	+11.6	+4.3
Galesburg	$ 198	6,389	$ 4,159		n.a.	$ 27
Percentage Change from... July, 1953	+57.1	+4.6	−3.6	n.a.		−23.4
Aug., 1952	−4.3	+31.0	+11.7			+1.7
Peoria	$ 463	48,991[c]	$16,520		$ 199	$ 183
Percentage Change from... July, 1953	+51.8	+19.2	−8.6	+24[c]	−3.2	−5.3
Aug., 1952	+16.3	+17.2	+9.3	+6	+27.5	+2.4
Quincy	$ 270	7,767	$ 4,625		$ 34	$ 65
Percentage Change from... July, 1953	+33.7	+17.8	−9.0	+28	−1.6	−0.5
Aug., 1952	+31.1	+7.9	+2.8	+2	+5.2	−9.6
Springfield	$ 300	27,354[c]	$13,618		$ 92	$ 161
Percentage Change from... July, 1953	−2.6	+2.2	−4.7	n.a.	−7.0	−17.3
Aug., 1952	+8.3	+8.7	+4.6		+16.9	−10.3
SOUTHERN ILLINOIS						
East St. Louis	$ 375	10,869	$ 9,677		$ 116	$ 56
Percentage Change from... July, 1953	+3.6	−22.1	−0.8	n.a.	−8.7	−6.8
Aug., 1952	−9.4	−17.5	+10.5		+0.0	−2.0
Alton	n.a.	12,030	$ 5,002		$ 35	$ 24
Percentage Change from... July, 1953		−1.5	−1.9	n.a.	−3.9	−12.5
Aug., 1952		+0.8	+16.8		+15.5	−6.5
Belleville	$ 75	6,239	$ 4,418		n.a.	$ 35
Percentage Change from... July, 1953	+188.5	+3.3	−5.0	n.a.		−0.2
Aug., 1952	−9.6	+24.0	+10.2			+11.7

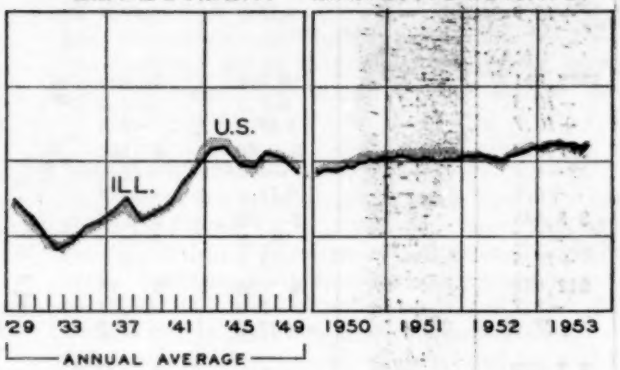
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for July, 1953, the most recent available. Comparisons relate to June, 1953, and July, 1952. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports.

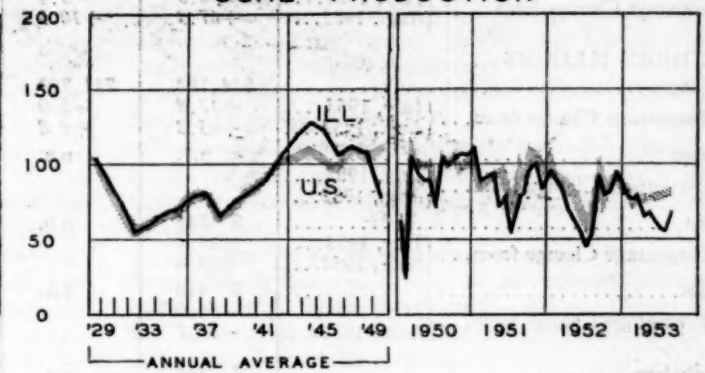
INDEXES OF BUSINESS ACTIVITY

1947-1949=100

EMPLOYMENT - MANUFACTURING



COAL PRODUCTION



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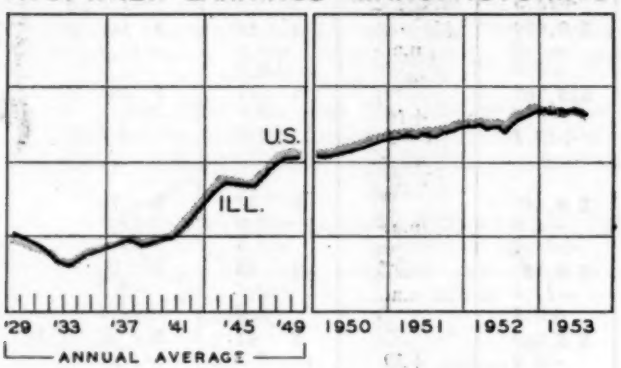

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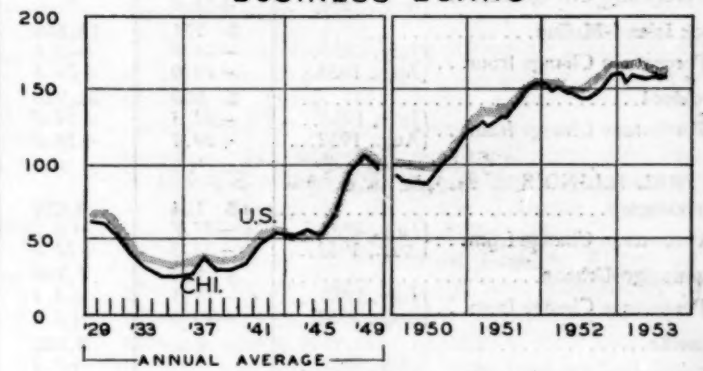
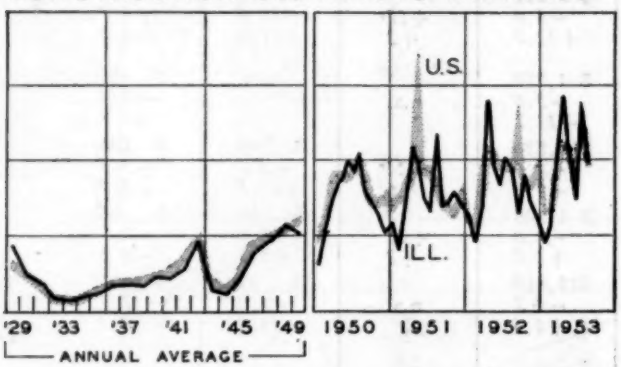
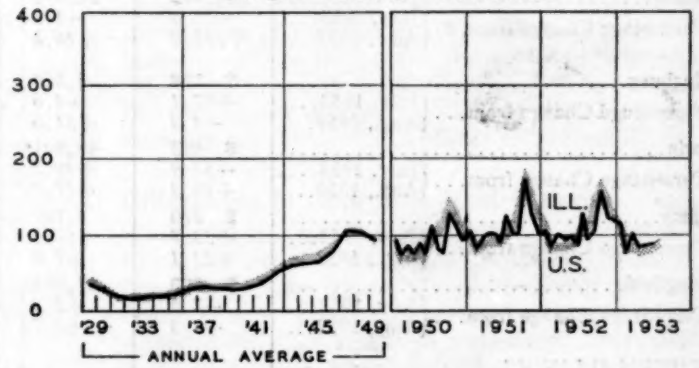


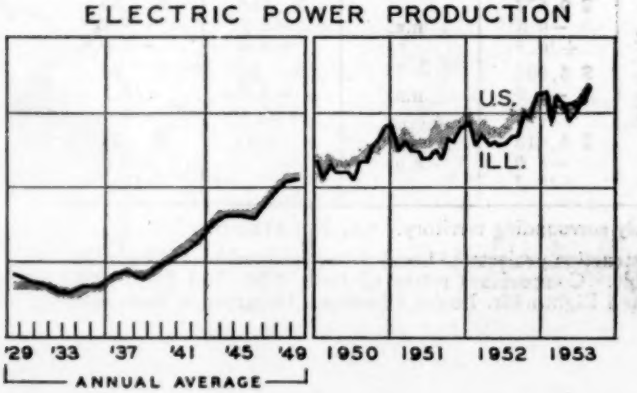
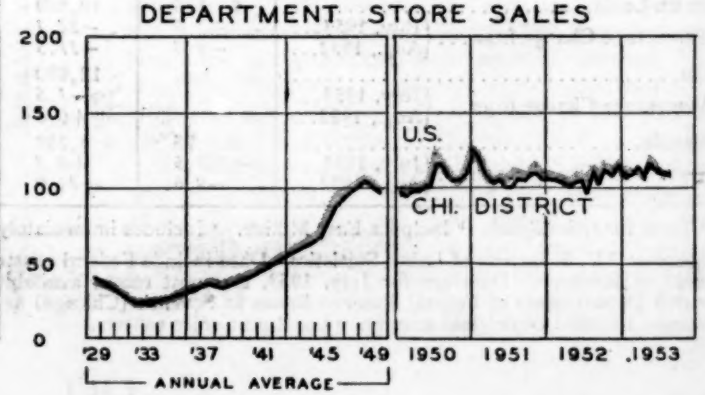
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES